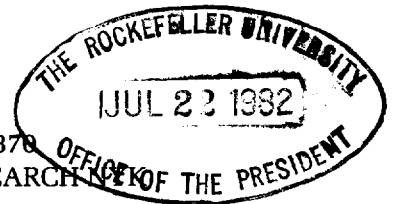


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Invention
Administration
Program



July 21, 1982

Dr. Joshua Lederberg
President
Rockefeller University
1230 York Avenue
New York, New York 10021

Re: University-Industry Collaborative Research

Dear Dr. Lederberg:

I was very interested to hear your comments at the Colloquium "Can the Law Reconcile the Interests of the Public, Academe, and Industry" organized by the New York Bar Association on April 21, 1982. I would be interested to know your views on a question I raised from the floor of the meeting.

The matter relates to the funding agreement between Hoechst and Massachusetts General which provides Hoechst with an exclusive license if Hoechst starts commercial development within three years. If Hoechst does not start commercial development within this three year grace period it would then retain a non-exclusive license.

The point I made was that this retention of a non-exclusive license would tend to block the development of those inventions which Hoechst chooses not to develop. I doubt if any company would want to develop an invention if Hoechst could move in at any time and exercise its non-exclusive license.

Obviously Hoechst has to receive favored treatment such as the granting of an exclusive license provided there are adequate provisions for diligence to develop the invention. If Hoechst, under the exclusive license, brings the invention to the market place then the public would benefit. However if Hoechst chooses not to exercise its exclusive rights within three years and still retains a non-exclusive license then this arrangement could make it un-attractive for another company to develop the invention.

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Some favored treatment has to be given in exchange for funding for without it there will be no incentive to fund the research. However it seems to me that an important principle appears to have been overlooked in the agreement. The principle being that no matter what price a company pays to a university it should not be allowed to block the development of an invention simply because that company is not interested in developing it. There must be adequate provision for other companies to have the opportunity to develop the invention if the public interest is to be served.

There are many reasons why Hoechst may not want to risk investing in the development of an invention. Hoechst may consider the market too small to justify the costs and risks involved in development. Hoechst may be in error in underestimating the market. Furthermore what appears to be a small market for Hoechst may be considered a sizable market for a smaller company. In such a situation, where Hoechst is not willing to develop the invention but another company recognizes a commercial opportunity, provision should be made for such an opportunity to be developed.

One way to do this would be for Hoechst to have a reasonable period of time in which to decide if it wishes to take an exclusive license with appropriate diligence terms. If Hoechst exercises its exclusive rights and develops and markets a new drug, the public would benefit -- provided the exclusivity is not abused by charging the public an exorbitant price. If after a suitable grace period, Hoechst decides not to develop the invention the public interest would be better served if Hoechst were to relinquish its non-exclusive license so that an exclusive license could be offered to other companies. In most cases a company will not commit itself to invest considerable resources in the development of an invention unless it is given an exclusive license. In exchange for relinquishing these rights Hoechst could share in any royalties that would arise from commercialization by the other company. With this arrangement a potentially useful invention considered not suitable for Hoechst is more likely to be

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developed. If the invention was developed, Massachusetts General would benefit from royalties, Hoechst would share in the royalties and thereby receive some financial return on its investment, and the public also would benefit.

With this type of arrangement the free market mechanism would be allowed to operate and the public would be able to exercise some freedom of choice. Furthermore it would provide some scope for smaller companies to get involved and make their contribution. Such an arrangement would help to avoid the criticism that through these one-on-one cooperative agreements the university is selling out to the highest bidder.

Your comments on this matter would be welcomed.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Thomas M. Noone".

Thomas M. Noone
Associate - Licensing

TMN:jr